

State Employee Benefits Advisory Council Meeting
February 20, 2009
Statewide Benefits Office
Dover, Delaware

The State Employee Benefits Advisory Council met on February 20, 2009 in the Statewide Benefits Office, 500 W. Loockerman St., Suite 320, Dover, Delaware. The following Council members and guests were present:

Ed Tos, Chair, SEBAC, DOL
Christine Long, SEBAC, DHSS
Meaghan Brennan, SEBAC, OMB
(Via conference call)
Thomas Chapman, SEBAC/DSEA

Barbara Summers, SEBAC, Appoquinimink S.D.
Tim Barchak, DSEA
Brenda Lakeman, OMB, SW Benefits, Director
Faith Rentz, OMB, SW Benefits
Mary Thuresson, OMB, SW Benefits

Ms. Lakeman called the meeting to order at 3:15 p.m. Introductions followed. Ms. Long congratulated the office on the DelaWELL Program as it was referenced in a magazine article. Ms. Lakeman moved approving minutes to the end of the meeting when more members would be present. Time was turned over to Mr. Tos while waiting for more SEBAC members to arrive. Mr. Tos explained a standing Agenda is being used. Agenda Items 2 – 5 all relate to the same thing, what's going on with SEBC looking at historical data, projecting where we are for FY10, and making decisions regarding what to do with different elements of the program as there is no projected deficit for FY10. SEBC meets on February 23, March 13 and March 30. Ms. Lakeman stated that in the past, March 30 or 31 has always been the deadline for decisions so changes can be communicated before Open Enrollment. For the past five years it has been accomplished early, usually by the middle of March. The fact that more of the communications materials will be done in house rather than by an outside marketing firm allows slightly more time this year. Holding final decisions until the March 30th meeting will not be a problem.

Mr. Tos said as a group he would like SEBAC to reach consensus on recommendations for the SEBC and asked for feedback from the group on how to accomplish this objective. He was unsure if it could be accomplished in one meeting.

Agenda Items Discussed:

1. Update of SEBC activities/Old Business/New Business/SEBAC comment to SEBC

Ms. Lakeman informed the group that the PowerPoint presentations from the February 6th and February 12th SEBC meetings were available for review on the conference room screen. Mr. Tos wanted to review the \$40M shortfall and the options presented to the SEBC including: raising premium percentages for employees, increasing deductibles, making statutory changes like double state share and covering children at 95%. All had different projected plan savings. He asked if the claims expenditures had been reviewed to determine if changes to utilization patterns could result in reduced costs. It was asked if vendor contracts could be reviewed and amended to produce savings. Ms. Long reiterated Mr. Larson's comment at SEBC that the State must be careful comparing salary and benefits to those in private industry as the State is not significantly better. Mr. Chapman stated DSEA's position that lower paid school district employees are working at or below poverty level and remain in their positions for the benefits, not salary.

Ms. Long asked if the health fund will have enough surplus growth to fund the projected deficit for FY10. It was mentioned that employees have not received an increase to their health contributions in

the last three years. During this same period, state employees have only received one pay increase. The health fund surplus was used for FY09 to avoid an increase in employee contributions. Last weeks' SEBC presentations proposed continued use of the surplus to fund some of the shortfall; however, the surplus will be insufficient to cover the entire FY10 shortfall.

Ms. Rentz explained the \$59M shortfall for all funds through June 30, 2010 by providing a review of the FY09 projected increase, how the SEBC increased healthcare rates to accommodate the increase and how surplus funds were able to close this shortfall for FY09. She explained the forecasting process and how projections are refined as more recent claims experience is available. In early FY09 it was projected that \$40M was needed to fund expenditures through June 30, 2009. Use of surplus funds solved the FY09 shortfall on a one year basis as opposed to adding \$40M through the operating budget or employee contributions which would have elevated revenue into the health fund on an ongoing basis. The FY10 shortfall includes all funds necessary to pay expenses through June 30, 2010 and accounts for the lack of an ongoing revenue source to cover the FY09 shortfall. The FY10 shortfall should be viewed as a two year deficit. Through analysis of healthcare trend and the fund's performance through the end of calendar year 2008, the Group Health Program has been able to adjust the original \$40M increase for FY09 downward and reduce the two year shortfall (FY09 and FY10) to \$59M. Discussion, questions and answers followed. Important topics included monies transferred to the OPEB Trust and explanation of the premium holiday used to expend the \$40M in surplus funds and ensure that employers groups participating in the Group Health program had adequate funds to pay the employer share of their employee's health care costs for FY09. Mr. Tos asked if a profit or loss was projected for the fund as of the end of FY09. Ms. Rentz explained that the financial reporting will reflect a loss because the Group Health Program's premiums for FY09 will be insufficient to fund the expenses. The ending balance reported on the June 2009 Fund and Equity report is expected to be approximately \$25M (surplus). The Fund and Equity report balance going forward into FY10 is uncertain at this point since it will be necessary to update the two month reserve and \$5M in lieu of stop loss that must be held to cover incurred claims as well as other obligations that must be reflected on the report.

Ms. Long related that state employees have expressed to her they feel as if they are left holding the bag to bail out the shortfall if the legislature and Joint Finance Committee do not address the problem. It is upsetting if this is a result of poor planning. Discussion, questions and answers continued. Choosing between plan and/or premium changes must be decided. The committee acknowledged the importance of reaching consensus on a recommendation to the SEBC. Ms. Lakeman reminded the group that there have been no employee contribution increases and only minimal plan design modifications in the past three to four years. The SEBC acknowledged the pressures placed upon employees in terms of rising costs without increases in compensation by making every attempt to leave health benefits unchanged. The economic situation will not allow this trend to continue and employees will likely be asked to take on a larger percentage of the cost of their healthcare. The group explained that the manner in which the problem is framed will be important in making employees not feel as though they are somehow to blame for circumstances which are not within their control. There was discussion of options state agencies may have to fund the 8% increase in the employer share of health rates approved by the SEBC in FY09. Mr. Tos stressed the importance of clarifying to the SEBC that there have not been previous discussions regarding the State not providing additional funding to the state agencies to cover the 8% increase approved for FY09.

It was expressed that retirees' need to be protected from increased expenses. Health benefits for teachers are a big issue because they are written into their contracts. Some districts pay the employees' share for health benefits. The impacts of different groups on our plan, state employees with poverty level income and non Medicare eligible retirees (ages 55-64) are added concerns of the SEBAC members.

Mr. Tos stressed that action needs to be taken to assist the state agencies in covering the increased costs for healthcare; otherwise these additional costs may be shifted onto employees. It was discussed that there is a general lack of understanding of how the Group Health Program operates and the responsibility of employer groups/state agencies to fund increases approved by the SEBC.

2. Approval of Minutes

Ms. Lakeman requested a motion to approve minutes for the January 6, 2009, July 28, 2008 and September 4, 2008 SEBAC meetings. Mr. Tos made the motion to approve minutes for all three meetings and Ms. Brennan seconded the motion. Upon unanimous voice approval the motion passed.

3. Public Comment

None.

Mr. Tos requested another SEBAC meeting be held before March 13 and asked what date/time would accommodate everyone. It was decided that another SEBAC meeting would be held on March 6th at 1:00 p.m. at the Statewide Benefits Office. There were no further comments.

Ms. Lakeman asked for a motion to adjourn. Mr. Chapman made the motion to adjourn and Mr. Tos seconded the motion. Upon unanimous voice vote, the meeting was adjourned at 4:55 p.m.

Respectfully submitted,

Mary Thuresson
Administrative Specialist II
Statewide Benefits Unit, OMB